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ONE HUNDRED NINTH CONGRESS  
**Congress of the United States**  
**House of Representatives**

COMMITTEE ON GOVERNMENT REFORM  
2157 RAYBURN HOUSE OFFICE BUILDING  
WASHINGTON, DC 20515-6143

Majority (202) 225-5074  
Minority (202) 225-5051

**SUBCOMMITTEE ON ENERGY AND RESOURCES**  
**B-349-C RAYBURN HOUSE OFFICE BUILDING**  
**Washington, DC 20515-6143**  
**(202) 225-6427**

March 7, 2006

The Honorable Gale A. Norton  
Secretary  
United States Department of the Interior  
1849 C Street, NW  
Washington, DC 20240

Dear Secretary Norton:

The Subcommittee conducted an oversight hearing on March 1, 2006 entitled "Natural Gas Royalties: The Facts, The Remedies." The purpose of this hearing was to address concerns raised by the *New York Times* and others about the implementation of the federal government's natural gas royalty payment program. Recent news reports suggested that the government may be unable to collect anywhere from \$7 billion to \$28 billion in natural gas royalties from leases of federal land and waters. This is particularly troublesome at a time when natural gas companies are continuing to post record earnings. The Subcommittee heard testimony from Dr. Walter Cruickshank, Deputy Director of the Minerals Management Service, on several areas of concern.

The first is whether some gas companies have failed to fulfill their contractual obligations to make royalty payments to the Department of the Interior. There is confusion surrounding figures the industry has supplied to the Interior Department, the accounting methods employed by the Interior Department, and the degree of oversight provided by the Minerals Management Service. As a result, there is a question whether the U.S. government may have been underpaid in excess of \$700 million of royalties in 2005.

Second, there is concern that the U.S. could be excluded from billions of royalties resulting from the Deep Water Royalty Relief Act (the "Act"). The Act was enacted to provide financial incentives to gas companies to explore and extract oil and natural gas from deep coastal waters. This came at a time when oil and gas prices were such that deep water drilling would have been unprofitable. The Act gives the Secretary of the Interior the authority to enter into leases with oil and gas companies with a defined volume suspension and price threshold so that companies would be able to recover their capital investment before having to pay royalties on their gross revenues. Based on information provided by the Interior Department, including the testimony of Dr. Cruickshank, it would appear that during 1998 and 1999, price thresholds were not included as terms of the leases, thereby allowing lessees to recoup their capital investment long before the expiration of volume suspensions. As these wells are now beginning to generate billions in gross revenues because of record gas prices, the effects of the price threshold-free language are now manifest. As a result, the U.S. may be unable to claim part of the billions in gross revenues for the years 1998 and 1999.

Dr. Cruickshank delivered a very lucid PowerPoint presentation on behalf of the Interior Department. In this, he not only explained why the Department believes there is no \$700 million shortfall, but he also gave an accounting of why 2005 gas royalties are no greater than what they were in 2001. Moreover, he assured the Subcommittee that MMS' auditing procedures are more than adequate. But Dr. Cruickshank was unable to explain why leases entered into during 1998 and 1999 did not contain the critical price threshold language contained in leases during 1996, 1997, and 2000. Accordingly, I asked Dr. Cruickshank to provide the following information to the Subcommittee in order to facilitate our investigation of this matter:

1. Copies of all deepwater leases (including schedules, amendments, addenda, and attachments) that do not contain price thresholds during the 5-year period described by section 304 of Public Law 104-58, chronologically sorted and indexed; and
2. A copy of the last lease before the 1998-1999 period to contain a price threshold, as well as a copy of the first lease after the 1998-1999 period to contain a price threshold.

Additionally, I would like your office to produce the following information:

1. A list of all personnel, their tenure, title, and department/division, involved with the creation, negotiation, review, approval, and signing of leases from January 1, 1996 through December 31, 2000;
2. A "cradle-to-grave" narrative, including a flowchart, describing the process by which leases were created, negotiated, reviewed, approved, and signed from January 1, 1996 through December 31, 2000;

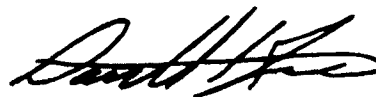
3. Copies of all lease templates used for the creation of leases between January 1, 1996 and December 31, 2000;
4. Copies of all records referring or relating to the creation, negotiation, review, approval, and signing of leases from January 1, 1996 through December 31, 2000;
5. Any records referring or relating to directives, departmental guidelines, orders, instructions, or other communication as to how the leases were to be created, negotiated, reviewed, approved, and signed during the time between January 1, 1996 and December 31, 2000; and
6. Please identify any and all electronic databases where information referred to in items 1-5 above is maintained and, in this connection, please identify by name the persons in charge of maintaining this data now, and more particularly, during the time between January 1, 1996 and December 31, 2000.

Please note that, for purposes of responding to this request, the terms "records," "communications," and "referring or relating" should be interpreted in accordance with the attachment to this letter.

Please submit these documents in electronic and hard copy form, with appropriate indices, by Wednesday, March 22, 2006. Additionally, I ask that you supply this information as it becomes available. If you have any questions regarding this request, please contact Larry Brady, Staff Director, or Thomas Alexander, Counsel, at (202) 225-6427.

Thank you in advance for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read 'Darrell Issa', with a stylized, cursive script.

Darrell Issa, Chairman  
Subcommittee on Energy and Resources

Attachment

## ATTACHMENT

1. The term "record" means any written, recorded, or graphic matter of any nature whatsoever, regardless of how recorded, and whether original or copy, including, but not limited to, the following: memoranda, reports, expense reports, books, manuals, instructions, financial reports, working papers, records notes, letters, notices, confirmations, telegrams, receipts, appraisals, pamphlets, magazines, newspapers, prospectuses, interoffice and intra office communications, electronic mail (e-mail), contracts, cables, notations of any type of conversation, telephone call, meeting or other communication, bulletins, printed matter, computer printouts, teletypes, invoices, transcripts, diaries, analyses, returns, summaries, minutes, bills, accounts, estimates, projections, comparisons, messages, correspondence, press releases, circulars, financial statements, reviews, opinions, offers, studies and investigations, questionnaires and surveys, and work sheets (and all drafts, preliminary versions, alterations, modifications, revisions, changes, and amendments of any of the foregoing, as well as any attachments or appendices thereto), and graphic or oral records or representations of any kind (including without limitation, photographs, charts, graphs, microfiche, microfilm, videotape, recordings and motion pictures), and electronic, mechanical, and electric records or representations of any kind (including, without limitation, tapes, cassettes, disks, and recordings) and other written, printed, typed, or other graphic or recorded matter of any kind or nature, however produced or reproduced, and whether preserved in writing, film, tape, disk, videotape or otherwise. A record bearing any notation not a part of the original text is to be considered a separate record. A draft or non-identical copy is a separate record within the meaning of this term.
2. The term "communication" means each manner or means of disclosure or exchange of information, regardless of means utilized, whether oral, electronic, by document or otherwise, and whether face-to-face, in a meeting, by telephone, mail, telexes, discussions, releases, personal delivery, or otherwise.
3. The terms "referring or relating," with respect to any given subject, means anything that constitutes, contains, embodies, reflects, identifies, states, refers to, deals with or is in any manner whatsoever pertinent to that subject.